The Library of America • Story of the Week
Reprinted from *John Kenneth Galbraith: The Affluent Society & Other Writings 1952–1967* (The Library of America, 2010), pages 234–38.

Published as the last section of Chapter III in *The Great Crash, 1929*.

FROM

In Goldman, Sachs We Trust

Goldman, Sachs and Company, an investment banking and brokerage partnership, came rather late to the investment trust business. Not until December 4, 1928, less than a year before the stock market crash, did it sponsor the Goldman Sachs Trading Corporation, its initial venture in the field. However, rarely, if ever, in history has an enterprise grown as the Goldman Sachs Trading Corporation and its offspring grew in the months ahead.

The initial issue of stock in the Trading Corporation was a million shares, all of which was bought by Goldman, Sachs and Company at $100 a share for a total of $100,000,000. Ninety per cent was then sold to the public at $104. There were no bonds and no preferred stocks; leverage had not yet been discovered by Goldman, Sachs and Company. Control of the Goldman Sachs Trading Corporation remained with Goldman, Sachs and Company by virtue of a management contract and the presence of the partners of the company on the board of the Trading Corporation.[21]

In the two months after its formation, the new company sold some more stock to the public, and on February 21 it merged with another investment trust, the Financial and Industrial Securities Corporation. The assets of the resulting company were valued at $235 million, reflecting a gain of well

[20]Reis, *op. cit.*, p. 124.
[21]*Stock Exchange Practices*, Hearings, April–June 1932, Pt. 2, pp. 566, 567.

over 100 per cent in under three months. By February 2, roughly three weeks before the merger, the stock for which the original investors had paid $104 was selling for $136.50. Five days later, on February 7, it reached $222.50. At this latter figure it had a value approximately twice that of the current total worth of the securities, cash, and other assets owned by the Trading Corporation.

This remarkable premium was not the undiluted result of public enthusiasm for the financial genius of Goldman, Sachs. Goldman, Sachs had considerable enthusiasm for itself, and the Trading Corporation was buying heavily of its own securities. By March 14 it had bought 560,724 shares of its own stock for a total outlay of $57,021,936.[22] This, in turn, had boomed their value. However, perhaps foreseeing the exiguous character of an investment company which had its investments all in its own common stock, the Trading Corporation stopped buying itself in March. Then it resold part of the stock to William Crapo Durant, who re-resold it to the public as opportunity allowed.

The spring and early summer were relatively quiet for Goldman, Sachs, but it was a period of preparation. By July 26 it was ready. On that date the Trading Corporation, jointly with Harrison Williams, launched the Shenandoah Corporation, the first of two remarkable trusts. The initial securities issue by Shenandoah was $102,500,000 (there was an additional issue a couple of months later) and it was reported to have been oversubscribed some sevenfold. There were both preferred and common stock, for by now Goldman, Sachs knew the advantages of leverage. Of the five million shares of common stock in the initial offering, two million were taken by the Trading Corporation, and two million by Central States Electric Corporation on behalf of the co-sponsor, Harrison Williams. Williams was a member of the small board along with partners in Goldman, Sachs. Another board member was a prominent New York attorney whose lack of discrimination in this instance may perhaps be attributed to youthful optimism. It was Mr. John Foster Dulles. The stock of Shenandoah was issued

[22]Details here are from *Investment Trusts and Investment Companies*, Pt. III, Ch. 1, pp. 6 ff. and 17 ff.

at $17.50. There was brisk trading on a "when issued" basis. It opened at 30, reached a high of 36, and closed at 36, or 18.5 above the issue price. (By the end of the year the price was 8 and a fraction. It later touched fifty cents.)

Meanwhile Goldman, Sachs was already preparing its second tribute to the countryside of Thomas Jefferson, the prophet of small and simple enterprises. This was the even mightier Blue Ridge Corporation, which made its appearance on August 20. Blue Ridge had a capital of $142,000,000, and nothing about it was more remarkable than the fact that it was sponsored by Shenandoah, its precursor by precisely twenty-five days. Blue Ridge had the same board of directors as Shenandoah, including the still optimistic Mr. Dulles, and of its 7,250,000 shares of common stock (there was also a substantial issue of preferred) Shenandoah subscribed a total of 6,250,000. Goldman, Sachs by now was applying leverage with a vengeance.

An interesting feature of Blue Ridge was the opportunity it offered the investor to divest himself of routine securities in direct exchange for the preferred and common stock of the new corporation. A holder of American Telephone and Telegraph Company could receive $4\,{}^{70}/_{715}$ shares each of Blue Ridge Preference and Common for each share of Telephone stock turned in. The same privilege was extended to holders of Allied Chemical and Dye, Santa Fe, Eastman Kodak, General Electric, Standard Oil of New Jersey, and some fifteen other stocks. There was much interest in this offer.

August 20, the birthday of Blue Ridge, was a Tuesday, but there was more work to be done by Goldman, Sachs that week. On Thursday, the Goldman Sachs Trading Corporation announced the acquisition of the Pacific American Associates, a West Coast investment trust which, in turn, had recently bought a number of smaller investment trusts and which owned the American Trust Company, a large commercial bank with numerous branches throughout California. Pacific American had a capital of around a hundred million. In preparation for the merger, the Trading Corporation had issued another $71,400,000 in stock which it had exchanged for capital stock of the American Company, the holding company which owned over 99 per cent of the common stock of the American Trust Company.[23]

Having issued more than a quarter of a billion dollars worth of securities in less than a month—an operation that would not then have been unimpressive for the United States Treasury—activity at Goldman, Sachs subsided somewhat. Its members had not been the only busy people during this time. It was a poor day in August and September of that year when no new trust was announced or no large new issue of securities was offered by an old one. Thus, on August first, the papers announced the formation of Anglo-American Shares, Inc., a company which, with a *soigné* touch not often seen in a Delaware corporation, had among its directors the Marquess of Carisbrooke, GCB, GCVO, and Colonel, the Master of Sempill, AFC, otherwise identified as the President of the Royal Aeronautical Society, London. American Insuranstocks Corporation was launched the same day, though boasting no more glamorous a director than William Gibbs McAdoo. On succeeding days came Gude Winmill Trading Corporation, National Republic Investment Trust, Insull Utility Investments, Inc., International Carriers, Ltd., Tri-Continental Allied Corporation, and Solvay American Investment Corporation. On August 13 the papers also announced that an Assistant U.S. Attorney had visited the offices of the Cosmopolitan Fiscal Corporation and also an investment service called the Financial Counselor. In both cases the principals were absent. The offices of the Financial Counselor were equipped with a peephole like a speakeasy.

More investment trust securities were offered in September of 1929 even than in August—the total was above $600 million.[24] However, the nearly simultaneous promotion of Shenandoah and Blue Ridge was to stand as the pinnacle of new era finance. It is difficult not to marvel at the imagination

[23]Details on Shenandoah, Blue Ridge, and the Pacific American merger not from the *New York Times* of the period are from *Investment Trusts and Investment Companies*, Pt. III, Ch. 1, pp. 5–7.

[24]E. H. H. Simmons, *The Principal Causes of the Stock Market Crisis of Nineteen Twenty-Nine* (address issued in pamphlet form by the New York Stock Exchange, January 1930), p. 16.

which was implicit in this gargantuan insanity. If there must be madness something may be said for having it on a heroic scale.

Years later, on a gray dawn in Washington, the following colloquy occurred before a committee of the United States Senate.[25]

Senator Couzens. Did Goldman, Sachs and Company organize the Goldman Sachs Trading Corporation?
Mr. Sachs. Yes, sir.
Senator Couzens. And it sold its stock to the public?
Mr. Sachs. A portion of it. The firm invested originally in 10 per cent of the entire issue for the sum of $10,000,000.
Senator Couzens. And the other 90 per cent was sold to the public?
Mr. Sachs. Yes, sir.
Senator Couzens. At what price?
Mr. Sachs. At 104. That is the old stock . . . the stock was split two for one.
Senator Couzens. And what is the price of the stock now?
Mr. Sachs. Approximately 1¾.

[25] *Stock Exchange Practices*, Hearings, April–June 1932, Pt. 2, pp. 566–67.